

## Message Text

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ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 SS-15 INR-07 EB-08 /045 W  
-----011711 171610Z /46

R 171300Z SEP 77  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 8816  
INFO AMEMBASSY MADRID  
AMEMBASSY DUBLIN  
AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 01 OF 04 PARIS 27155

STADIS////////////////////////////////

USEEC FOR EMBASSY ALSO

E.O. LL652 GDS  
TAGS: XT  
SUBJECT: WEST EUROPEAN FACTOR IN AMERICAN FOREIGN  
POLICY

REF: STATE 216662

1. SEEN FROM THE PERSPECTIVE OF THIS MISSION, A  
CENTRAL FACTOR IN THE WESTERN EUROPEAN EQUATION OVER THE  
NEXT YEAR IS LIKELY TO BE CONTINUED ECONOMIC WEAKNESS --  
I.E., VARYING COMBINATIONS OF HIGH UNEMPLOYMENT AND/OR  
EXISTING OR FEARED UNACCEPTABLE INFLATION RATES COMBINED  
WITH DISAPPOINTING REAL GROWTH. THE LIKELY INABILITY OF  
GOVERNMENTS TO DRAMATICALLY IMPROVE THIS CONDITION IN  
THE SHORT RUN WITH EVEN THE BEST POLICY ACTIONS FURTHER  
EXACERBATES THE PROBLEM. WHILE ECONOMIC WEAKNESS IS  
GENERAL, THE DEGREE TO WHICH IT APPEARS AND ITS PARTICU-  
LAR MANIFESTATIONS VARY WIDELY FROM COUNTRY TO COUNTRY.

2. OVER THE COMING YEAR, THE INABILITY OF GOVERNMENTS  
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TO REDUCE UNEMPLOYMENT TO ACCEPTABLE LEVELS OR TO PRO-  
VIDE CERTAIN SEGMENTS OF THEIR PEOPLE WITH A STANDARD OF  
LIVING WHICH AT LEAST MAINTAINS ITS PRESENT REAL LEVEL  
WILL TEND TO ERODE THE POPULARITY OF POLITICAL INCUM-  
BENTS. ALTHOUGH ACTION EMBASSIES ARE IN A BETTER POSI-  
TION TO COMMENT ON THE POSSIBLE POLITICAL CHANGES, WE  
MAY NOTE THAT THE EXISTING ECONOMIC WEAKNESS CREATES

SUBSTANTIAL POLITICAL UNCERTAINTY WHICH LOGICALLY HAS A DELITERIOUS EFFECT ON PRIVATE INVESTMENT LEVELS. CONTINUING UNEMPLOYMENT IS ALSO LIKELY TO GENERATE SUPPORT FOR THOSE FACTIONS WHICH MAY BE LESS COOPERATIVE WITH U.S. POLICY GOALS. THE PERCEIVED INABILITY OF GOVERNMENTS TO ACT EFFECTIVELY AGAINST THE CURRENT ECONOMIC PROBLEMS COULD, OVER THE LONGER TERM, SERIOUSLY ERODE PUBLIC CONFIDENCE IN DEMOCRATIC INSTITUTIONS.

3. FROM THE VIEWPOINT OF EXTERNAL RELATIONS, NATIONAL ECONOMIC WEAKNESSES WILL CONTINUE TO TRANSLATE THEMSELVES INTO PROTECTIONIST PRESSURES. THE TEMPTATIONS WILL GROW TO FIND THE MEANS BY WHICH INTRACTABLE DOMESTIC DILEMMAS CAN BE ALLEVIATED BY SHIFTING THE BURDEN TO OTHER COUNTRIES, ALL THE MORE SO, SINCE SOME COUNTRIES (GERMANY, SWITZERLAND, THE NETHERLANDS), NOT TO MENTION JAPAN, HAVE A STRONG EXTERNAL POSITION. THE DIVERGENCE IN CURRENT ACCOUNT POSITIONS COULD ENGENDER PUBLIC EXPRESSIONS OF RESENTMENT AMONG THE DEFICIT COUNTRIES, WHICH WOULD STRENGTHEN A POLITICAL TENDENCY TOWARD NATIONALIST ACTIONS. IT IS NOT YET CLEAR TO US WHETHER OR HOW FAR THESE TEMPTATIONS WILL BE TRANSLATED INTO POLICIES.

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ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 SS-15 INRE-00 EB-08 /038 W  
-----011861 171611Z /41

R 171300Z SEP 77  
FM AMEMBASSY PARIS  
TO SECSTATE WASHDC 8817  
INFO AMEMBASSY MADRID  
AMEMBASSY DUBLIN  
AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 02 OF 04 PARIS 27155

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4. IT IS POSSIBLE TO TAKE THE OPTIMISTIC VIEW THAT THIS SITUATION WILL ACTUALLY ENHANCE CERTAIN FORMS OF COHESION AMONG THE INDUSTRIALIZED WESTERN EUROPEAN COUNTRIES. THE OECD TRADE PLEDGE OF 1974 AND THE 1976/77 NON-INFLATIONARY GROWTH COMMITMENTS AT OECD MINISTERIALS AND SUMMITS ILLUSTRATE HOW POLICY MAKERS, IN THE OECD STATES, CAN BAND TOGETHER TO MAINTAIN AN OPEN AND COOPERATIVE INTERNATIONAL ECONOMIC SYSTEM, BASED ON A VIRTUALLY UNANIMOUS CONSENSUS THAT A RETREAT INTO PURELY NATIONALIST ECONOMIC POLICIES WOULD BE SELF-DEFEATING AND WOULD BE THE LEAST DESIRABLE OF AVAILABLE POLICY CHOICES. OTHERWISE STATED, GLOBAL ECONOMIC INTERDEPENDENCE APPEARS TO BE GENERALLY RECOGNIZED, AND SOME, BUT NOT ALL, RECENT POLICY ACTIONS HAVE REFLECTED THIS RECOGNITION.

5. BUT OPTIMISTIC POSSIBILITIES SHOULD NOT ANESTHETIZE US TO THE DANGERS. IT SEEMS TO US HERE THAT TRADE PLEDGE CONSENSUS, FOR EXAMPLE, IS BECOMING INCREASINGLY CONFIDENTIAL

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FRAGILE. THE POLITICAL PRESSURES CALLING FOR SUPPORT FOR SECTORS IN DIFFICULTY ARE BECOMING STRONGER. FURTHERMORE, THERE IS A DANGER THAT THE POLITICAL BASE WHICH SUPPORTS OPEN ECONOMIC POLICY WILL BE NARROWED IN ONE OR MORE COUNTRIES. AND IF A MAJOR COUNTRY WERE TO EMBARK ON INDEPENDENT POLICIES (FOR EXAMPLE BY STIMULATING ITS ECONOMY MORE THAN ITS EXTERNAL POSITION COULD SUSTAIN) IT WOULD BE IMPELLED TO TAKE OTHER MEASURES TO INSULATE ITSELF FROM THE WORLD ECONOMY. THIS COULD PUT IRRESISTIBLE PRESSURE ON OTHER COUNTRIES TO FOLLOW SUIT. IN SHORT, THE DANGERS OF A DOWNWARD SPIRAL OF PROTECTIONIST ACTIONS AND COUNTER-ACTIONS WILL BE ACUTE OVER THE NEXT YEAR.

6. IN PURSUING OUR OWN TRADE POLICY THE US WILL NEED TO KEEP THIS GENERAL CONDITION INCREASINGLY IN MIND. US POLICIES AND ACTIONS HAVE BEEN STRONGLY SUPPORTIVE OF AN OPEN INTERNATIONAL SYSTEM, BUT IT REMAINS TRUE THAT ANYTHING THAT COULD BE INTERPRETED AS A PROTECTIONIST TREND IN THE US WOULD HAVE REPERCUSSIONS IN A EUROPE IN WHICH THERE ARE ALREADY POWERFUL INCLINATIONS TO FOLLOW SUCH A COURSE.

7. THE MULTILATERAL TRADE NEGOTIATIONS ARE A STRONG FORCE FOR HOLDING BACK PROTECTIONIST ACTIONS AND THE VIGOR WITH WHICH THESE NEGOTIATIONS ARE NOW BEING PURSUED IS ESPECIALLY VALUABLE. PRECISELY FOR THIS REASON, HOWEVER, THE STAKES RIDING ON A SUCCESSFUL MTN OUTCOME ARE HIGH. FURTHERMORE, THE ECONOMIC CONDITION OF EUROPE

AT THIS TIME WILL PROBABLY LEAD TO PRESSURES FOR MORE MODERATE LIBERALIZATION THAN MIGHT OTHERWISE BE THE CASE. IN TERMS OF TRADE-OFFS THE US MAY WELL BE FACED WITH A QUESTION OF WHETHER OR HOW FAR WE ARE PREPARED TO  
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ACCEPT SOME DISAPPOINTMENT IN RESULTS IN ORDER TO SECURE AN AGREEMENT.

8. GENERALIZED ECONOMIC WEAKNESS OCCURS IN EUROPE AT A TIME WHEN -- IN THE POST-CIEC ERA -- THE DEVELOPED COUNTRIES HAVE COMMITTED THEMSELVES TO CERTAIN ACTIONS IN FAVOR OF LDCS AND ARE UNDER INCREASINGLY FOCUSED PRESSURE BY THE LDC'S TO MAKE FURTHER CONCESSIONS. UNTIL NOW THE DAC COUNTRIES BY AND LARGE HAVE RETAINED A SURPRISINGLY HIGH PRIORITY FOR DEVELOPMENT ASSISTANCE GIVEN THEIR ECONOMIC DIFFICULTIES. BUT THE TENDENCIES TO REDUCE THE PRIORITY FOR THIS ASSISTANCE ARE LIKELY TO GROW, AND THE POLITICAL ABILITY OR INCLINATION TO TAKE MEASURES WHICH APPEAR TO SHIFT SOME ADVANTAGE FROM DEVELOPED TO DEVELOPING COUNTRIES MAY WELL WEAKEN. AT THE SAME TIME, ECONOMIC WEAKNESS AMONG THE LDC'S (WHICH ITSELF SUBSTANTIALLY REFLECTS ECONOMIC WEAKNESS IN THE DEVELOPED COUNTRIES) TENDS TO ENCOURAGE AN ESCALATION OF UNREALISTIC DEMANDS. THE COMBINATION OF GROWING DEMANDS BY THE LDC'S AND LESSENERED ABILITY/WILLINGNESS BY THE DEVELOPED COUNTRIES TO MEET THEM COULD LEAD TO DISSENSION AMONG THE LATTER ON HOW TO RESPOND. FOR EXAMPLE, FORMULAE MIGHT BE DEVELOPED AMONG ECONOMICALLY WEAKER EUROPEAN STATES TO IMPROVE NORTH/SOUTH RELATIONS THROUGH CONCESSIONS LARGELY AT THE EXPENSE OF THE RELATIVELY STRONGER STATES. THERE COULD ALSO BE A TENDENCY ON THE PART OF DEVELOPED STATES TO SUGGEST INCREASINGLY POINTEDLY THAT THE NON-OIL LDC'S SHOULD LOOK STILL MORE TO THEIR OPEC BRETHREN

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ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 SS-15 INR-07 EB-08 /045 W

-----011966 171612Z /41

R 171300Z SEP 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8818

INFO AMEMBASSY MADRID

AMEMBASSY DUBLIN

AMEMBASSY STOCKHOLM

C O N F I D E N T I A L SECTION 03 OF 04 PARIS 27155

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WHOSE POLICIES HAVE IN LARGE MEASURE CAUSED THE WORLD  
PREDICAMENT IN THE FIRST PLACE. IN CERTAIN RESPECTS  
THIS MAY BE A HEALTHY AND DESIREABLE DEVELOPMENT BUT  
THERE IS ALSO DANGER THAT POLEMICS ABOUT SPLITTING THE  
G-77 COULD BECOME DIVISIVE. IN GENERAL, THERE IS HIGH  
RISK THAT SITUATION OF INCREASED LDC NEEDS AND DEMANDS  
COUPLED WITH DIMINISHED DC ABILITY AND INCLINATION TO  
RESPOND WOULD INTRODUCE NEW STRAINS IN THE NORTH/SOUTH  
RELATIONSHIP.

9. THE ECONOMIC/POLITICAL STATE OF WESTERN EUROPE OVER  
THE COMING YEAR MAY ALSO INCREASE TEMPTATIONS TO CUT  
MILITARY BUDGETS WHICH COULD BE VIEWED AS SOURCES OF  
FUNDS THAT COULD BE DIVERTED TO MORE POLITICALLY PALA-  
TABLE SOCIAL AND ECONOMIC USES. THIS MISSION IS NOT COM-  
PETENT TO JUDGE THE EXTENT TO WHICH SUCH TEMPTATIONS  
MIGHT BE YIELDED TO OR WHAT IMPLICATIONS MIGHT FOLLOW.

10. TRADE OPPORTUNITIES THAT MIGHT BE PROVIDED BY  
EASTERN EUROPE WILL LOOK ESPECIALLY ATTRACTIVE IN WES-  
TERN EUROPE. THIS COULD LEAD TO COMPETITION WHICH COULD  
HAVE DISRUPTIVE EFFECTS ON EXISTING AGREEMENTS. FOR  
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EXAMPLE, IN THE AREA OF EXPORT CREDITS, AND IF HIGH TECH  
-NOLOGY STRATEGIC DEALS ARE OFFERED, THESE  
COULD POSE FURTHER STRAINS ON THE COCOM SYSTEM.

11. AS RELATED TO THE WORLD ENERGY PROBLEM WE WOULD NOT  
EXPECT DRAMATIC DEVELOPMENTS HERE OVER THE NEXT YEAR  
UNLESS OF COURSE THE MIDDLE EAST SHOULD ERUPT AGAIN. THE  
BASIC WORLD SUPPLY/DEMAND BALANCE SHOULD IN THE NEXT  
YEAR GET SOME TEMPORARY RELIEF FROM OIL COMING  
FROM THE NORTH SEA AND THE NORTH SLPE. BUT IT REMAINS  
TRUE THAT GOVERNMENTS (THOUGH NOT NECESSARILY THEIR  
PUBLICS) ARE CONVINCED OF THE DANGER LOOMING IN  
MIDDLE EIGHTIES. WHILE THE OCTOBER 5-6 MEETING OF IEA

MINISTERS WILL ADDRESS THE INTERNATIONAL RESPONSE TO THIS DANGER, SKEPTICISM WILL REMAIN ABOUT THE POLITICAL ABILITY OF GOVERNMENTS TO TAKE EFFECTIVE DOMESTIC ACTIONS UNTIL SUCH ACTIONS ARE IN FACT TAKEN AND PRODUCE RESULTS. FROM THAT VIEWPOINT US DOMESTIC PERFORMANCE WILL BE UNDER SCRUTINY. OUR ENERGY BILL IS CONSIDERED A MAJOR INITIATIVE, BUT IF OUR PERFORMANCE SHOULD COME TO BE JUDGED INADEQUATE, THE POLITICAL WILL ELSEWHERE TO TAKE HARD ENERGY DECISIONS WILL ALSO BE WEAKENED, AS WILL THE SERIOUSNESS WITH WHICH IEA COOPERATION IS REGARDED. THE GENERAL ATMOSPHERE OF INTERNATIONAL ENERGY COOPERATION WILL OBVIOUSLY AFFECT OUR ABILITY TO SECURE OUR NUCLEAR NON-PROLIFERATION OBJECTIVES.

12. IN SUM, WE SEE THE ECONOMIC WEAKNESS OF WESTERN EUROPE OVER THE NEXT YEAR AS AN IMPORTANT CORROSIVE FACTOR, WHICH WILL COMPLICATE OUR EFFORTS SOMEWHAT ACROSS A BROAD SPECTRUM OF INTERNATIONAL OBJECTIVES. WE THINK THAT THE GENERALLY POOR CONDITION OF INTERNATIONAL ECONOMIC WEAKNESS WILL PERSIST OVER THE NEXT YEAR

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DESPITE THE BEST EFFORTS OF GOVERNMENTS INDIVIDUALLY AND COLLECTIVELY TO RESOLVE THESE PROBLEMS. A MAJOR CONTRIBUTION TO ALLEVIATING THESE DIFFICULTIES AND TO POINTING THE WAY FOR OTHER GOVERNMENTS WILL BE THE SUCCESS OF THE UNITED STATES IN MANAGING OUR OWN ECONOMY, IN CONTINUING TO SHOULDER A LARGE SHARE OF THE OECD CURRENT ACCOUNT DEFICIT, IN ASSERTING OUR LEADERSHIP TO KEEP THE INTERNATIONAL ECONOMIC SYSTEM OPEN, AND IN PASSING STRONG ENERGY LEGISLATION. VISIBLE FORMS OF CONSULTATION AND COOPERATION AMONG OECD MEMBERS, TOGETHER WITH REGULAR HIGH-LEVEL REVIEW OF ECONOMIC TRENDS AND INDIVIDUAL COUNTRY POLICIES, ARE IMPORTANT ELEMENTS

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ACTION SP-02

INFO OCT-01 EUR-12 ISO-00 SS-15 INR-07 EB-08 /045 W

-----011872 171612Z /46

R 171315Z SEP 77

FM AMEMBASSY PARIS

TO SECSTATE WASHDC 8819

INFO AMEMBASSY MADRID

AMEMBASSY DUTOCKHOLM

C O N F I D E N T I A L SECTION 04 OF 04 PARIS 27155

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IN REINFORCING THE CONSCIOUSNESS OF INTERDEPENDENCE

AND MUTUAL OBLIGATIONS.

SALZMAN

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## Message Attributes

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**TAGS:** PGOV, PDIP, XT, US  
**To:** STATE  
**Type:** TE  
**vdkgvwkey:** odbc://SAS/SAS.dbo.SAS\_Docs/a9591343-c288-dd11-92da-001cc4696bcc  
**Review Markings:**  
Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009